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REVIEW ARTICLE

How do multinational enterprises respond to geopolitics? A review and research agenda

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[Correction added on 28 November 2025, after first online publication: The Abstract, Subsections 3.3 and 3.4, Figures 3 and 4, Table 2, and the online Appendix have been updated in this version to reflect the corrected total number of studies, which is 93 (previously reported as 97).]

Abstract

International business research emphasizes the importance of geopolitics to multinational enterprise (MNE) strategic decision-making. Yet, insights and evidence are dispersed across levels of analysis and disciplinary perspectives, making it difficult to determine how exactly MNEs respond to geopolitics. Leveraging a sample of 93 papers from journals in strategy, international business and management, we clarify the impact of geopolitics on home and host country relations and the interplay with MNE strategic decision-making. In advancing existing knowledge boundaries, we make sense of MNE responses to geopolitically induced uncertainty by accounting for MNEs' heterogeneous political capabilities and investment real options. We show that when MNEs have strong political capabilities, they often opt for a shaping engagement response to influence home–host country relations. However, weak political capabilities limit investments with flexible real options and restrict investments with committed real options, leading to adaptive engagement, non-engagement and exit responses. Finally, we outline an agenda for future studies on the topic.

1 | INTRODUCTION

Shifting alignments and patterns in international politics add complexity to our understanding of firm-state relations in the global economy (Phan, 2019; Strange, 2015). While governments are concerned about the security and sovereignty of the nation state, multinational enterprises (MNEs) are focused on cross-border trade and investment and the allocation of related assets and resources (De Villa et al., 2019; White et al., 2021). In this scenario, interstate relations develop to ensure the promotion and protection of national interests in a globalized economy. Since MNEs may not align with these national interests, they can diverge in their investment responses to changes in home–host country relations. These heterogeneous responses complicate and confuse our understanding of MNE strategic decision-making, particularly when assessing the impact of geopolitics.

Our review locates the source of confusion arising from how geopolitics are discussed and tested in studies that combine country and firm levels of analysis. This is because a significant share of the literature in international business (IB) has studied the role of institutions as a means of targeting how home–host country interactions affect MNEs. However, interstate relations are more complex than that. Home–host country relations change over time, and geopolitical power struggles are often the reason why shifts in these relations happen, generating

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uncertainties for MNEs (Bilgili et al., 2023; Ding et al., 2023; Han et al., 2024). Moreover, bilateral and global interstate relations are often discussed interchangeably (Lubinski & Wadhwani, 2020; D. Wang et al., 2021) when in practice, they may exert different degrees of influence on MNEs and trigger diverse responses. For instance, the Russian–Ukrainian conflict is a bilateral issue that conveys multilateral geopolitical implications. When it comes to MNE conduct, we have observed a variety of responses. This heterogeneity is attributed to how the firm values its own home country's relations with the host country (Russia in this case) and its investment characteristics (Evenett & Pisani, 2023; Mol et al., 2023; Witt et al., 2023). Thus, even though global geopolitics is an important phenomenon in IB, the relations between the home and host countries serve as the primary lens through which geopolitics influences MNE investment decisions, ultimately determining the extent of the impact.

In this review, we define geopolitics as the area of study that discusses how geography shapes politics in international relations (Guzzini, 2018; Sykulski, 2013; Tuathail, 1999; Tuathail & Toal, 1994). This adds to more recent contributions in political geography, which seek to explain how political processes shape the geographical space where MNEs are located (Saittakari et al., 2023; Sykulski, 2013). However, we focus on the discussion as to how geography shapes the politics of interstate relations at a country level, creating different structural and relational power dynamics (Han et al., 2024; Winecoff, 2020) that unleash a more relational type of political risk and uncertainty around MNE investment decisions.

We undertake an integrative review of existing literature on geopolitics as a construct relevant to home–host country relations and clarify the related interactions with MNE investment's strategic decision-making by answering the following research questions: *How do MNEs respond strategically to geopolitics when it impacts relations between home and host countries?* We systematically review the literature that discusses geopolitics and country and firm-level factors. In doing so, we develop an integrative framework for the geopolitical impact on home–host country relations and its effects on MNE strategic decision-making. This framework highlights how geopolitics can create risk or uncertainty in home–host country relations, prompting MNEs to balance various economic and political factors in response to these challenges. In advancing these findings, we develop a theoretical discussion on MNE strategic responses that combines insights from real options theory and the political capabilities perspective to better explain the nuances of MNE responses under geopolitically induced uncertainty.

Our review helps to advance existing knowledge in two main ways. Firstly, we contribute to the discussion on geopolitics in IB as we organize the literature to define geopolitics as a concept and construct within IB research, particularly interfacing with home–host country relations. We emphasize that geopolitically induced political risk and uncertainty are also relational, arising from dynamic interactions between countries rather than being tied to a static country profile, as suggested by the current literature (Bussy & Zheng, 2023; Caldara & Iacoviello, 2022; Sallai et al., 2024). This perspective allows us to position MNEs as influential actors in geopolitics, as they often shape home–host country relations. Thus, our review contributes to a shift in how we frame the impact of geopolitics on MNE investment decisions, recognizing that these factors are not merely external sources of risk or uncertainty, as discussed in more recent studies (Bucheli et al., 2024; J. Li, Shapiro, et al., 2022).

Secondly, we show how the spectrum of strategic response available to MNEs under geopolitically induced uncertainty can be better understood by incorporating real options and political capabilities perspectives (Ceccagnoli et al., 2018; Trigeorgis & Reuer, 2017). In doing so, we explain the impact of geopolitically induced uncertainty and the behavioural biases that MNEs are subject to when operating in different political settings. Robust political capabilities enable MNEs to pursue a shaping engagement response and influence home–host country relations. In this scenario, different real options are available to MNEs depending on the flexibility or commitment trade-off. However, when political capabilities are weak, two effects emerge: one where flexibility is feasible, weak political capabilities limit the real options leading to an adaptive engagement response or non-engagement response; and the second is the exit response where there is commitment, and weak political capabilities restrict real options. Thus, our combined theoretical basis helps to clarify the heterogeneity encountered in MNEs' strategic responses to geopolitically induced uncertainty.

The paper is organized as follows. We start by presenting the conceptualization of geopolitics as a construct that matters to IB research, highlighting its impact on home–host country relations. Our systematic literature review protocols are presented in the next section, where we discuss the details of the scope and filtering of the sample and our preliminary analysis of the emerging themes. Next, we organize the emerging themes using the *Antecedents-Decision-Outcomes* logic in our framework. In the subsequent section, we discuss how the paper's findings grouped in our framework can be extended by presenting a theoretical discussion of MNEs' strategic responses to geopolitically induced uncertainty. Finally, we consider the implications of our findings for the field and suggest a future research agenda.

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TABLE 1 Overlap of International Political Economy (IPE) and geopolitical perspectives on key domains of interstate relations.

IPE perspectives	Geopolitical perspectives
Political	
In IPE, states engage politically to foster cooperation, negotiate treaties or initiate disputes based on economic interests.	Geopolitics analyses how political decisions are influenced by geographic factors, focusing on how states adapt their international behaviour to preserve or change their power status in relation to specific territories. It integrates power struggles, regional dominance and the strategic value of regions.
Economic	
IPE primarily examines how states pursue trade, investment and economic alliances/disputes to enhance prosperity and economic growth.	Geopolitics expands this by considering how economic behaviour is influenced by geographic constraints (e.g., control over natural resources or strategic trade routes). It situates economic relations within the broader competition for global influence, where economic actions serve as tools for power projection and strategic positioning.
Security	
IPE considers economic security in terms of trade stability and resource access.	Geopolitics extends beyond economic security to encompass military and strategic concerns, focusing on how states adapt their military behaviour to secure dominance over key territories. This includes competition for strategic regions, control of vital shipping routes and the placement of military bases as a means to project power.

Source: Adapted from Oatley (2022) and Tuathail and Toal (1994).

2 | GEOPOLITICS AS A CONSTRUCT

Geopolitics offers invaluable insights into how geography shapes the distribution of power and influence in international politics (Tuathail, 1999). However, discussions on geopolitics are sometimes subject to misinterpretation and concept overstretching due to the inherent complexity of global affairs. A common source of confusion in international relations literature arises from the intersection of geopolitics and International Political Economy (IPE) (J. Li, Van Assche, et al., 2022). On the one hand, IPE focuses on how economic activity both shape and is shaped by international politics, aiming to explain why nations cooperate or conflict over economic dominance (Lawton et al., 2018; May, 1996; Oatley, 2022; Strange, 1990, 2015). On the other hand, geopolitics focuses on how geography affects power and influence in international relations, providing a broader perspective that extends beyond economic factors (Kuus, 2017; Tuathail, 1999). Table 1 illustrates the points of convergence and divergence between these two approaches and perspectives.

In this paper, we define geopolitics as a construct where power and influence are not inherent or pre-existing but are actively constructed through statecraft practices such as foreign policy and international discourse (Agnew, 2016; Dalby, 2008; Tuathail, 1999). For instance, consider an investment agreement between two nations. A country may enter such an agreement not only to foster bilateral relations or leverage economic gains but also to enhance its influence within a particular region. This is exemplified by China's Belt and Road Initiative (BRI), forging alliances via investment agreements in multiple countries across Africa, Asia, Europe, and elsewhere, thereby increasing China's influence in those regions (H. Chen, 2016; D. Li, Tong, et al., 2022; Yang et al., 2022; H. Zhang & De Beule, 2022). Thus, geopolitics extends the analysis of these relations beyond their immediate economic terms, embedding them within a broader strategic framework that sets new regional and global power dynamics (Cannizzaro, 2020; Tomashevskiy, 2021).

2.1 | Defining geopolitics impact on home–host country relations

After defining geopolitics, it is essential to clarify how it influences countries' bilateral relations, particularly those between the home and host countries of MNE investments. As Figure 1 illustrates, while the international relations environment involves multi-actor interactions, such as MNEs, governments and international organizations (Lawton et al., 2018), in geopolitics, the core dynamic lies in how these interactions are shaped by geography, motivating bipolar or multipolar power struggles (Kristof, 1994; Tuathail, 1999). However, not all power struggles around the globe will influence interstate relations that matter to MNEs. For instance, despite rising geopolitical tensions due to the conflict in Ukraine, some countries have maintained a neutral stance toward Russia, allowing MNEs to continue operations in the country (Cui et al., 2023; Evenett & Pisani, 2023; Mol et al., 2023; Witt et al., 2023). Similarly, in Venezuela, political disputes with the United States and related sanctions have not resulted in significant political distancing from other Latin American

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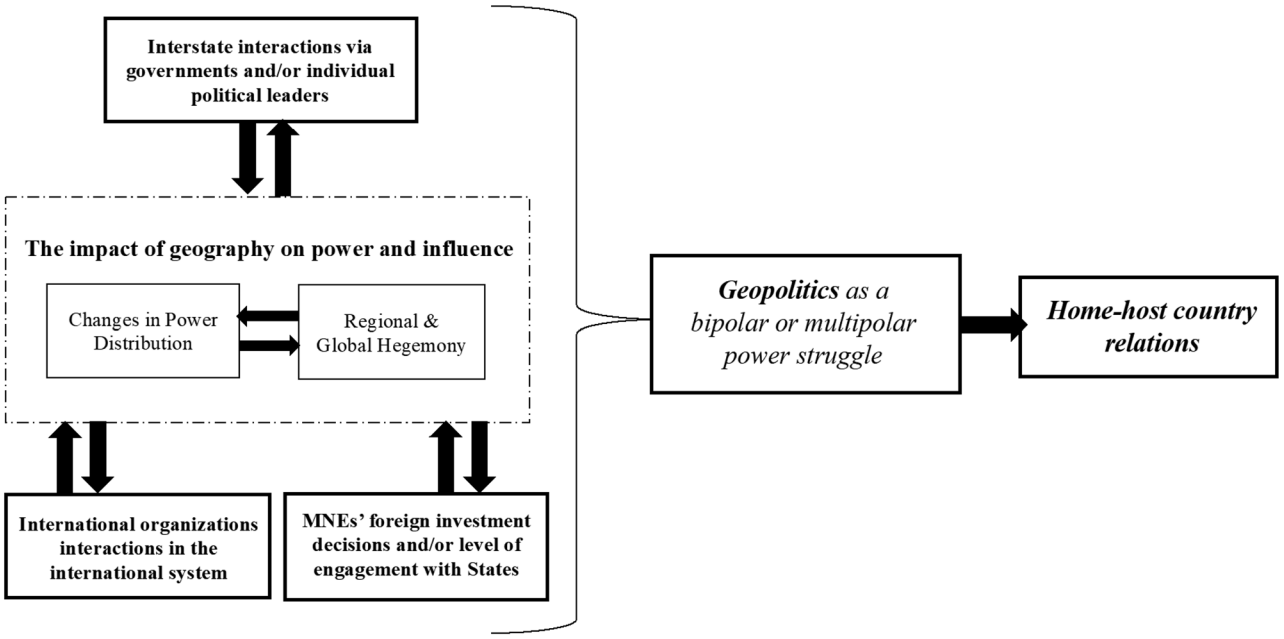

FIGURE 1 Geopolitics and its impact on home–host country relations. MNEs, multinational enterprises. *Source*: Adapted from Bilgili et al. (2023), Lawton et al. (2018), and Tuathail (1999).

countries, as some companies have kept investing in the region (Blake & Moschieri, 2017; De Villa et al., 2019). These examples highlight how home–host country relations determine the extent to which global geopolitics affect MNEs and their investments.

As global geopolitical landscapes evolve and new power dynamics emerge, countries often reassess their positions, which can either reinforce existing cooperation or conflict or shift the current state of home–host country relations. Geopolitical power struggles often create more complex dynamics in home–host country relations, moving beyond the traditional cooperative or conflicted framework. In this context, home–host country relations may evolve into ambivalence, where both positive and negative interactions coexist; or into neutral relationships, characterized by a lack of significant engagement in either direction (Bilgili et al., 2023). These nuanced dynamics complicate risk assessments for MNEs as the predictability of bilateral relations diminishes.

2.2 | Defining risk and uncertainty in home–host country relations and the impact on MNE strategic decision-making

Knight (1921) defined the differences between risk and uncertainty, arguing that decision-makers dealing with risk may not know the outcomes of their decisions, but they can calculate the probabilities of these outcomes. In contrast, uncertainty arises when the probabilities and results of a decision are unknown (Benischke et al., 2022; Moura et al., 2021). In the context of home–host country relations, the binary choice between cooperation and conflict has been effective in assessing risk, as it clearly indicates a positive or negative balance of interactions. However, more complex dynamics – such as neutral, ambivalent, or shifting relations – introduce uncertainty, as shown in Figure 2.

Extant research has classified country relations based on the levels of positive and negative interactions (Bilgili et al., 2023; Goldstein, 1992; D. Wang et al., 2021). Consequently, the frameworks of cooperation and conflict are the most studied, as they help characterize risks by clearly reflecting a balance of events. This clarity makes it easier to predict outcomes in home–host country relations (Goldstein, 1992; D. Wang et al., 2021; Yoon et al., 2021). However, when home–host country relations are marked by ambiguity, such as ambivalence, neutrality or shifting dynamics, the predictability of future developments becomes more challenging. This ambiguity and political instability introduce uncertainty for MNEs.

These geopolitically induced risks and uncertainty in home–host country relations present unique challenges for MNEs' international strategies and differ in two main ways from traditional host-country political risk and uncertainty, which have been the focus of existing literature (Benischke et al., 2022; Sallai et al., 2024). Firstly, geopolitical uncertainty affects MNEs unevenly and cannot be viewed as host-country risks. For example, shifting United States–China relations led to reduced

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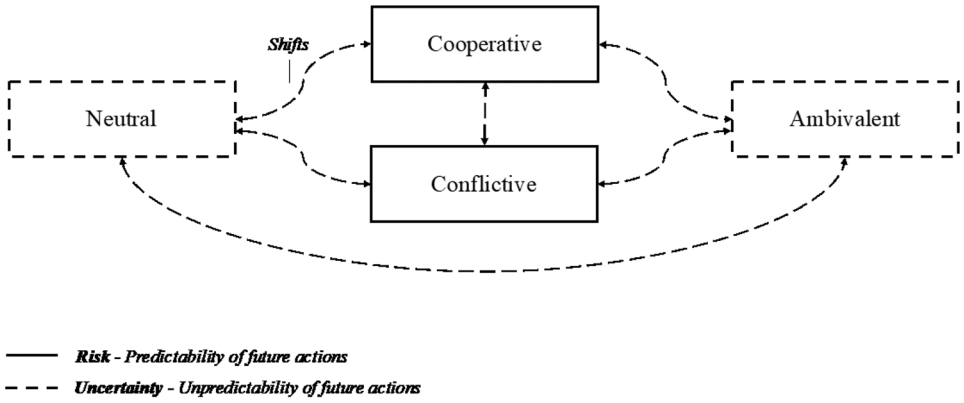

FIGURE 2 Risk and uncertainty in home–host country relations. *Source*: Adapted from Bilgili et al. (2023).

investments by American MNEs like Apple and NVIDIA in China, while companies from countries with more neutral relations with China, such as Germany's Siemens, continued to invest in the country. Secondly, MNE strategies to address host country political risk/uncertainty may not be effective for managing geopolitically driven risk/uncertainty (J. Li, Shapiro, et al., 2022; Zámborský et al., 2023). For instance, Chinese MNEs had to rethink their strategies in countries that had recently shifted relations with China, requiring more sophisticated and diplomatic approaches to continue business operations.

Thus, when dealing with geopolitically induced risk and uncertainty, MNEs must navigate a more complex set of considerations in their international strategies, one that accounts not only for the political environment at home or in host countries but also for the broader dynamics of home–host country relations (Bilgili et al., 2023; De Villa et al., 2019; Zámborský et al., 2023). Given the complexity of these responses and the diversity in MNE strategies, this literature review aims to clarify the various ways in which MNEs respond to the influence of geopolitics on home–host country relations risk and uncertainty.

3 | METHOD

3.1 | Research design

The systematic literature review is a rigorous method that allows the study's replication, promotes research transparency and stimulates an integrated view of the existing knowledge (Briner & Denyer, 2012; Christofi et al., 2021). To perform a systematic review of the literature, we followed three main steps: define the scope of the review, select the papers for our sample and report the preliminary analysis of relevant themes (Eduardsen & Marinova, 2020; Gaur & Kumar, 2018).

3.2 | Step 1: Defining the scope

Our systemic literature review investigates the impact of geopolitics on MNEs' strategic decision-making, answering the question: *How do MNEs respond strategically to geopolitics when it impacts relations between home and host countries?* In doing so, we investigate the geopolitical factors that unleash structural power dynamics within which MNEs interact via the home and host country relations and, in some instances, contribute to its co-creation (Strange, 2015). Thus, we aim to discuss such implications at the firm level.

3.3 | Step 2: Selection of papers

We selected articles published in journals ranked 2 or above on the AJG Index (Association of Business Schools, 2021). The Index has a peer-review editorial of business-related journals, allowing us to target research papers with minimum quality criteria (Morris et al., 2009). By establishing the cut-off point at classification 2 for publications, we aim to select at least an acceptable quality standard (Morris et al., 2009). The only exception to this protocol was the inclusion of the recent launch *Journal of International Business Policy* (JIBP), which brings relevant content about the matter in IB and was not yet included in the ABS list (Bruijn et al., 2024). In the Scopus database, we filtered journals in the IB, strategy, and management fields. This review discusses relevant publications in political science (Oatley, 2022; Prantl & Goh, 2022; Strange, 1990, 2015), but they are not included in our protocols due to the absence of discussion at the firm level. Thus, the search strings were determined by the home–host countries' relations and geopolitics (*geopoli* OR 'Home-Host' OR 'Home and Host' OR 'International Agreement*' OR 'International Conflict*' OR 'International Safeguard*' OR supranational OR*

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*bilateral OR multilater**) and MNE's international investments (*multinational* OR MNE OR 'foreign direct investment' OR 'foreign investment' OR 'FDI' OR 'cross-border acquisitions' OR 'M&A' OR 'IJV' OR 'joint ventures' OR 'internationali?ation'*). The keywords selected for the search were investigated in the titles, abstracts and keywords of journal articles. We did not limit our research by year, allowing a broader understanding of the state of the art of the topic (Christofi et al., 2021).

To ensure an unbiased and relevant selection of studies, we defined exclusion and inclusion criteria to perform the search filtering (Eduardsen & Marinova, 2020). The exclusion criteria of the studies are as follows:

a. Political risk/uncertainty from a domestic origin, as well as the national implications of institutional risks and/or national political events, are not part of our analysis because they refer to national institutional arrangements and disregard the interstate relation between home and host countries. One example of a paper we excluded based on these criteria is Jiménez et al. (2014), where the authors' analysis focused on political actions limited to national contexts.
b. The economic development and the implications of supranational institutions for countries and the international economy are not part of our analysis. Instead, we focus on geopolitical events and bilateral relations concerning home and host countries relations and their implications at the firm level. One example of an article excluded from the sample under these conditions is Sato (2012).

Accordingly, the inclusion criteria of the studies meet the following:

a. Papers that discuss home and host countries' relations and geopolitics (country-level) impact on MNE's international investment decisions (firm-level) and
b. Papers that discuss the MNE's international investment decisions (firm-level) impact on home and host countries' relations and geopolitics (country-level).

The sample filtering occurred based on the search strings, journal selection and review criteria, as presented in Figure 3. Firstly, we searched for the strings in articles in the business area within the Scopus database, resulting in 1007 research papers. Secondly, we selected the articles that were published in targeted journals, corresponding to the rank 2 or above from ABS (Association of Business Schools, 2021), including the JIBP, reducing the sample to 435 papers. Then, we read the title, abstract, keywords and research question of the papers, decreasing the number to 232 entries. Next, based on the exclusion and inclusion criteria, we read the full text of the paper, reducing the entries to 83. After that, we searched for in-press papers that would meet the criteria of our review (Debellis et al., 2021), reaching the number of 84 entries. Finally, we applied a technique called backward tracing to include relevant references that were not reached by our search queries (Arte & Larimo, 2019), culminating in 93 articles as our final sample.

3.4 | Step 3: Preliminary analysis

The 93 research papers in the sample were published from 1971 to 2023. Figure 4 shows that the relevance of the theme for the study of strategy, management and IB at the firm and country levels is relatively recent. The full list of articles is given in our Appendix in the Supporting Information.

The sample also includes 36 journals from the strategy, management and IB fields. Table 2 summarizes the top 15 journals that correspond to 73 of the 93 articles in the sample. Most papers are empirical, and a small part of the sample consists of literature reviews. Of these four reviews, one has focused exclusively on state-owned enterprises (Cuervo-Cazurra et al., 2023), one has focused on the political geography and social factors that comprise the political landscape for business at macro and micro levels (Saittakari et al., 2023), and the other two have focused on specific geopolitical factors such as increased nationalism (Rammal et al., 2022) and the Chinese BRI (Sheetal et al., 2023). We differentiate our study by adding a more holistic and broad perspective. We define and explore geopolitics as the spatial and locative analysis of political phenomena at macro levels, emphasizing power dynamics unleashed on home–host country relations (Lawton et al., 2018; Tuathail, 1999). Furthermore, unlike previous reviews, we define the impact of geopolitics on home and host country relations as a construct that primarily interacts with MNE decision-making and strategic responses.

Based on the nature of our research question and our understanding of geopolitics as a construct interacting with home–host country relations, we performed a qualitative analysis of the sample to interpret the content and arguments that allow the coding process (Gaur & Kumar, 2018). 'Qualitative codes are essence-capturing and essential elements of the research story that, when clustered together according to similarity and regularity – a pattern – they actively facilitate the development of categories and thus the analysis of their connections' (Saldaña, 2021). The coding scheme at the firm level was based on strategic decision-making theories in IB investments that aim to explain factors and outcomes related to those decisions

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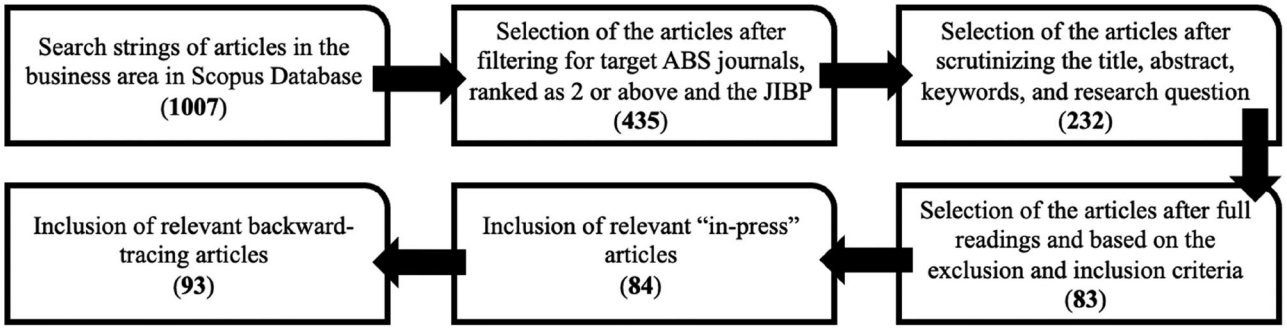

FIGURE 3 Search filtering. *Source*: The authors.

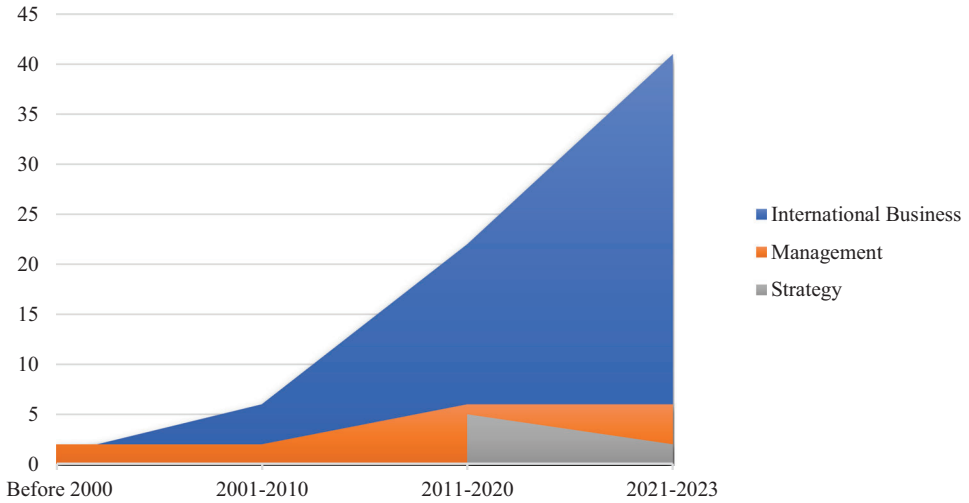

FIGURE 4 Publications by area. *Source*: The authors.

TABLE 2 Top 15 journals and types of studies.

Top 15 journals	Empirical	Literature review	Theoretical	Total
Journal of International Business Studies	17	2	4	23
International Business Review	9		1	10
Journal of World Business	4	1	2	7
Global Strategy Journal	3		1	4
Journal of International Management	3		1	4
Strategic Management Journal	3			3
Asia Pacific Journal of Management	3			3
Thunderbird International Business Review	1	1	1	3
Critical Perspectives on International Business	2		1	3
Multinational Business Review	2		1	3
British Journal of Management	2			2
Management International Review	2			2
Business Horizons	1		1	2
Asia Pacific Business Review	1		1	2
Journal of International Business Policy	2			2
Total	**55**	**4**	**14**	**73**

Source: The authors.

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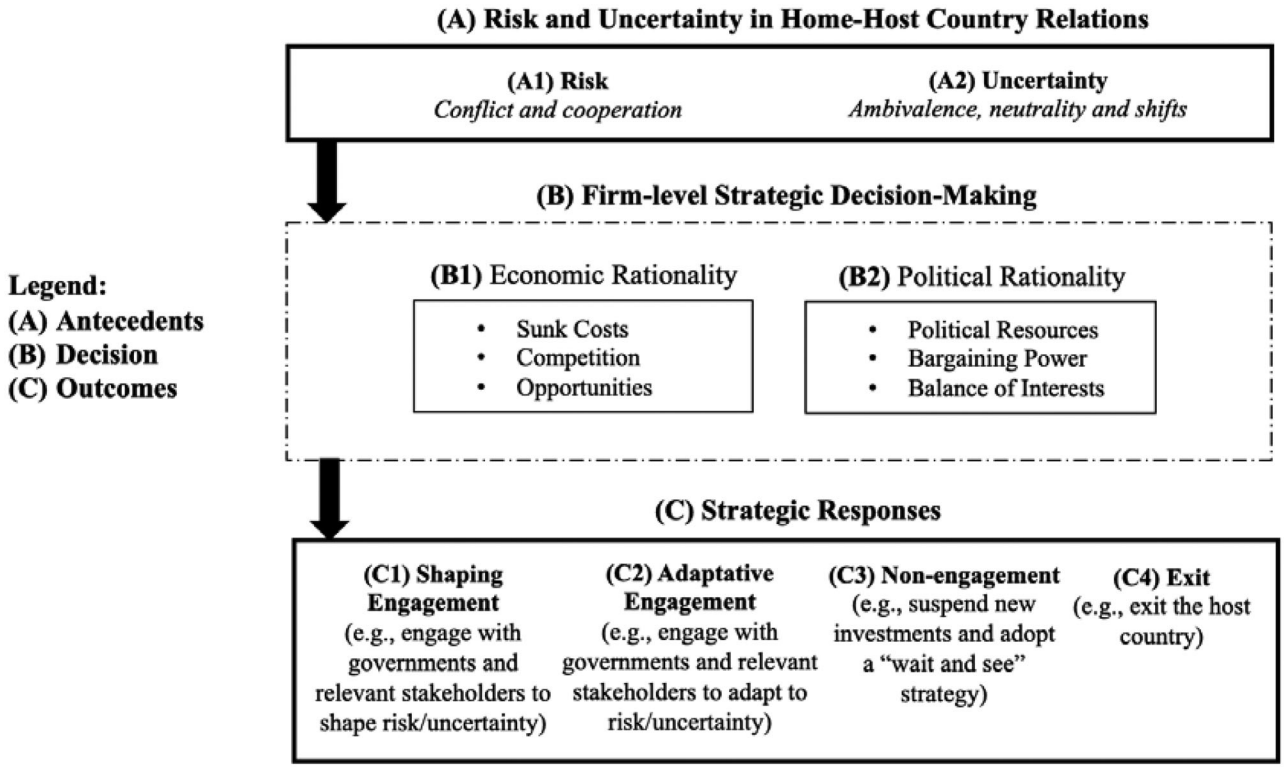

FIGURE 5 Home–host country relations and MNEs' strategic decision-making. MNEs, multinational enterprises. *Source*: The authors.

from economic rationale and behavioural perspectives (Buckley & Casson, 2019; Buckley et al., 2007; Dean & Sharfman, 1996; Elia et al., 2019; Luehrman, 1998). The strategic responses categorization was inspired by studies that investigate the different engagement levels of the MNE with political instability (Cui et al., 2023; De Villa et al., 2019; John & Lawton, 2018; Luo & Van Assche, 2023; Ren & Gao, 2023).

4 | ORGANIZING THE LITERATURE

We organized the literature in an analytical and integrative framework (Figure 5) to better observe the literature patterns and connections (Debellis et al., 2021; Narayanan et al., 2011). We adopted the *antecedents-decision-outcomes* approach (Paul & Criado, 2020). The antecedents in our framework are the home and host countries' risk and uncertainty shaped by the geopolitics in place. The phenomenon of our review is MNE strategic decision-making regarding international investments. The outcomes of this process are MNEs' strategic responses.

A) Risk and uncertainty in home–host country relations. Our review first organized the discussion of home–host country relations. Through this process, we synthesized the various factors pertaining to the relations between home and host countries discussed in studies regarding our definition of risk and uncertainty. Thus, we can identify nuances in the assumptions and provide nomological clarifications on the topic.

A1) Risk. In studies examining home–host country relations risk in IB via the binary framework of cooperation-conflict, two primary views have emerged. On the one hand, literature has targeted isolated aspects of home and host country relations, such as bilateral institutions and their existence/absence as a source of risk mitigation/creation for MNE investments. For example, studies have emphasized the role of bilateral trade and investment agreements in offsetting risks and promoting investments in the involved locations (Albino-Pimentel et al., 2018; Paniagua et al., 2015; Vasudeva et al., 2018; Williams et al., 2017). While trade agreements incorporate a geographic and economic dependence between nations, investment agreements usually include a protection scheme for foreign investment, reducing the effects of eventual power disputes over the investments. In addition, there is a greater value for business when the host country's bilateral investment treaties network is spread out. This is because if a host country is geographically well connected with other countries, the bilateral relationship with the home country can be more strategic to the MNE (Bandelj et al., 2015; Bolívar et al., 2019). Furthermore, studies have shown that informal links between nations, such as colonial ties, might motivate investments due to the residual power

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dynamics from colonial times (Boussebaa & Morgan, 2014; Osei et al., 2020).

On the other hand, studies have investigated the risk mitigation/creation in a bigger array of events that define cooperative/conflicted home–host country relations (Bertrand et al., 2016; Bilgili et al., 2023; De Villa et al., 2019; Duanmu, 2014; Yoon et al., 2021). In this scenario, more than a single factor or institution is analysed. Speeches, political support or diplomatic comments are also considered to measure the quality of the relations, as they can also capture the intentions and motivations of political leaders that may be concretized in the future. Thus, studies showed that countries that maintain cooperative political relationships offer a positive environment for business and can offset nonmarket and market risks in the host country (Cannizzaro, 2020; Copara, 2014; Oh & Fratianni, 2017; Parente et al., 2019). On the contrary, when the home and host countries' relations are conflicted, studies registered the negative impact of ideologies, stigma, and interstate dissimilarities on business (Bilgili et al., 2023; De Villa et al., 2019; Kolk & Curran, 2017; Tsui-Auch et al., 2022).

These perspectives are intertwined since the isolated foreign policies and bilateral institutions between home and host countries constitute the tangibles of interstate relations. When nations are allied and friendly, the likelihood of supporting foreign policies in bilateral investments is high. At the same time, when hostile geopolitics are in place, the bilateral institutions are typically less favourable to business, sometimes ending up in sanctions and restrictions to business (Evenett & Pisani, 2023; D. Wang et al., 2021). Thus, analysing isolated foreign policies offers a narrower yet still important perspective on the impact of home–host country relations risk on business decisions (Hartmann et al., 2022) compared to the broader aspects associated with interstate events (Sykulski, 2013).

A2) Uncertainty. Studies examining uncertainty have focused on home–host relations that are ambivalent, neutral or that are experiencing a shift. Ambivalence typically refers to relations that contain both strongly positive and negative events. Where relationships are highly ambiguous, MNEs struggle to predict future actions and face high levels of uncertainty. This is particularly evident in situations where MNEs do business with 'frenemies', when national interests collide with international relations and impact foreign investment (Bilgili et al., 2023; Bucheli et al., 2024; Lubinski & Wadhwani, 2020). Several studies have demonstrated that under these circumstances, MNEs seem to adopt different coping mechanisms to compensate for the negative events in ambivalent relations. One of the most common approaches highlighted in these studies is the use of corporate diplomacy strategies, where MNEs focus on safeguarding their investments and positioning themselves within the broader geopolitical landscape that shapes home–host country interactions (Bucheli et al., 2024; J. Li, Shapiro, et al., 2022; Lubinski & Wadhwani, 2020; Westermann-Behaylo et al., 2015). In doing so, MNEs actively engage in negotiation and bargaining with both home and host country governments to mitigate uncertainty, using diplomatic channels to influence relations and protect their operational interests. When it comes to the role of neutral relations, some of the studies have defended that neutral relations can, sometimes, offer opportunities for MNEs (Zámborský et al., 2023). In contrast, other studies suggest that neutral relations can shift to conflict (Fjellström et al., 2023), while others do not identify a clear effect (Bilgili et al., 2023).

Studies have also explored how shifts in home–host country relations cause uncertainty to MNEs (Cui et al., 2023; Fjellström et al., 2023; Luo & Van Assche, 2023; Zámborský et al., 2023). Nationalism and de-globalization movements are examples of how geopolitical contexts can cause shifts in 'thought to be' stable interstate relations. This theme highlights how changes in countries' interests over time can lead to uncertainty, ranging from the gradual deterioration of historical links between nations (Witte et al., 2020) to discussions on how relations between host and home countries can abruptly escalate into conflict (Cui et al., 2023; Fjellström et al., 2023; Luo & Van Assche, 2023; Zámborský et al., 2023).

B) Firm-level strategic decision-making. The studies analysed in this review have pointed out that the factors influencing firm-level investment decisions are to be found in two main domains: economic and political (Buckley & Casson, 2019; Dean & Sharfman, 1996). While under an economic rationale, MNEs balance factors such as sunk costs, market opportunities and competition within the political domain, a range of political strategies may emerge depending on the political resources, bargaining power and balance of interests of the MNE. Thus, we adapt the work of Narayanan et al. (2011) in strategic cognition and Dean and Sharfman (1996) on strategic decision-making to delineate the factors MNEs evaluate during this process. These studies have shown that MNEs can make a decision based solely on economic factors, political ones or a combination of both (Buckley & Casson, 2019; Dean & Sharfman, 1996).

B1) Economic rationality. Decisions based on economic rationality consider market opportunities and competition, the evaluation of the costs of the investment choices available as central factors in how they respond to geopolitics (Buckley & Casson, 2019; Dean & Sharfman, 1996). In our sample, this rationale is especially found in studies that discuss the industry's characteristics or asset specificity as the main drivers of MNEs' investment decisions. For example, even before the war in Ukraine, Lander and Kuns (2021) showed the MNE's economic rationale for invest-

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ment and divestment from Russian and Ukrainian territories. In their study, the MNE's decision is explained by its industry of operation in the agricultural sector. Ukraine and Russia provide nutrient-dense soil and high-quality agricultural land conditions, thus offering attractive conditions for MNEs in the agricultural sector. However, geopolitical tensions generated turmoil in both countries' economies, saw MNEs mobilize strategies designed to maintain the investments. However, the resulting turmoil reached a point where it became economically impracticable to sustain these investments (Lander & Kuns, 2021).

The economic rationality construct is also applied to controversial decisions on keeping investment in hostile locations due to the opportunities MNEs foresee in that location based on their innovation abilities and/or industry competition (D. Li, Tong, et al., 2022; L. E. Zhang et al., 2022). This can happen in two different ways. Firstly, the MNE decides to invest amidst geopolitical tension because the competition in the host location is reduced or expected to reduce in the long run (Cui et al., 2023; Witt et al., 2023). Thus, it is possible for the MNE to take advantage of the market opportunities available. Secondly, the economic value generated by MNEs in the host country can potentially offset tensions between their home and host nations. For instance, the number of patents registered within the host country can positively influence local innovation metrics, thereby shielding the MNE from geopolitically induced risks (Zhou et al., 2024). This is also a rationale adopted by some Chinese MNEs in the tech industry that shifted their focus to indigenous innovation to navigate the tensions arising from the Tech Cold War geopolitical context that affects home–host relations (L. E. Zhang et al., 2022).

B2) Political rationality. On the political side, the MNE is trying to balance the different sources of interest around the organization (Buckley & Casson, 2019; Dean & Sharfman, 1996; Narayanan et al., 2011). As a result, this section highlights the main factors discussed in the papers and used to bridge the array of interests pertinent to MNE investments when responding to geopolitical impact via home–host country relations: political resources, bargaining power and balance of interests.

We found MNE decisions to be influenced by political resources that can be beneficial or harmful to the firm (Boussebaa & Morgan, 2014; Copara, 2014; De Villa et al., 2019). On the one hand, political connections can constrain MNEs, compelling them to prioritize alignment with the political interests of the politicians to whom they are connected, rather than pursuing their commercial goals. MNEs, in this case, may navigate the political environment to adjust their connections according to the pressures from geopolitics at home or in host countries, an approach that may take time (Tsui-Auch et al., 2022). On the other hand, political resources can be combined with the MNE's bargaining power to negotiate on behalf of its commercial interests (Cui et al., 2023; Müllner & Puck, 2018). The balance and value of the political resources of the MNE will determine its level of engagement with governments and its responses in dealing with risk and uncertainty deriving from home and host country relations affected by geopolitics (Cui et al., 2023; Witt et al., 2023).

However, the leverage of the MNE's political resources is even more complicated when there are state ownership structures, presenting a challenge in the balance of interests (Cuervo-Cazurra & Li, 2021; Jandhyala & Weiner, 2014). For example, state-owned companies from China are known for their strong political orientation based on the structure of interests they must manage internally (Cuervo-Cazurra & Li, 2021; Luo & Van Assche, 2023; Yang et al., 2022). During this process, the MNEs must consider the politics of their business, which may contravene economic rationality. The studies in our sample offered evidence that under uncertain conditions, the dilemma of balancing political and commercial interests was highly correlated to the ownership structures of the MNE, emphasizing that state capitalism can be more sensitive to interstate conflicts and motivate politically orientated strategic decisions (V. Z. Chen et al., 2019; Shi et al., 2016; D. Wang et al., 2021).

C) Strategic responses. The strategic responses are the outcome of the firm decision-making process. While examining the impact of geopolitical-induced risks and uncertainties on home and host country relations, MNEs balance economic and political factors, determining the extent of leverage they can wield (Fjellström et al., 2023). In this scenario, it is assumed that home and host country relations can significantly influence the success or failure of MNEs' investments. Thus, based on our sample, MNEs' strategic responses are shaping engagement, adaptative engagement, non-engagement and exit.

C1) Shaping engagement. Studies in this review have revealed that MNEs holding a degree of political influence via political resources, bargaining and balance of interests engage with governments and relevant stakeholders to shape home and host country relations. For instance, to mitigate risks for their investments, MNEs may engage with home–host countries and/or international institutions to boost the creation or termination of investment agreements between home and host countries (Buzdugan, 2021; Paniagua et al., 2015). Furthermore, the review reveals that MNEs significantly influence the global governance of FDI through nonmarket strategies. Examples include corporate diplomacy, where MNEs utilize diplomatic channels to enhance the governance of their investments, and corporate social responsibility initiatives, which help improve their legitimacy and create

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favourable conditions for international investment (J. Li, Shapiro, et al., 2022; Ren & Gao, 2023).

However, in situations where these MNEs are strongly affected by uncertainty, they may leverage shared interests with states and choose to engage in a more relational way, negotiating with stakeholders at home or host countries, either alone or in a collective manner (Abdelal, 2015; Bucheli et al., 2024; Lander & Kuns, 2021; Reno, 1997). This behaviour is exemplified in the studies mainly by MNEs that hold important and strategic assets to states, operating in sectors such as oil and gas or, more recently, technology. These MNEs are directly shaping the dominance over global structures of production and knowledge, playing an important part in the distribution of power (Lawton et al., 2018). Thus, how these MNEs manage their investments can greatly influence the geopolitics impact on home and host countries' relations.

C2) Adaptative engagement. Studies have shown that in many cases, MNEs' balance of economic and political factors triggers an adaptation strategy, where MNEs make use of political and market strategies to cope with the risks and uncertainty in their investments. In this case, there is an engagement with governments and relevant stakeholders to adapt to the new reality instead of shaping it. For instance, when the political influence of the MNE is limited, to mitigate risks MNEs may choose to invest in a country based on the political affinity between home and host countries (Hu et al., 2021; Moghaddam et al., 2014; Tang et al., 2022) because the cooperative relations reduces political and market risks for business (H. Chen, 2016; Duanmu, 2014; Q. Wang & Liu, 2022). Furthermore, MNEs may design their investment decisions to align and support the home country's political interests (Cuervo-Cazurra & Li, 2021; Moghaddam et al., 2014), thus seizing the benefits of such alignment. This is especially important for state-owned MNEs due to their political interests.

However, when MNEs choose to invest in a location where geopolitics provoke uncertain home–host country relations (ambivalent, neutral or periods of shifts), this decision is based on the economic opportunities existing in that market and how the MNEs frame their corporate purpose, internal governance structure and resource exploitation to the relevant stakeholders (Albino-Pimentel et al., 2018; George & Schillebeeckx, 2022; Parente et al., 2019). In the context of nonmarket strategies, MNEs revisit their corporate purpose and negotiate and address the divergent expectations of political and civil society stakeholders across both home and host countries (George & Schillebeeckx, 2022; Hsiao et al., 2023; John & Lawton, 2018; J. Li, Shapiro, et al., 2022). In the context of market strategies, studies have shown that MNEs may reconfigure their internal structures, from changing headquarters location and financial structure to shifting their business focus from market exploitation to knowledge exploration to adapt to the existing restrictions and still thrive (De Villa et al., 2019; Fjellström et al., 2023). Click or tap here to enter text. Thus, in dealing with this geopolitically induced uncertainty, MNEs – particularly those operating in strategic industries for states – apply a complex array of political and market strategies as a coping mechanism to continue operating business in the host locations (Hsiao et al., 2023; D. Li, Tong, et al., 2022; Lubinski & Wadhwani, 2020; Yiu et al., 2022).

C3) Non-engagement. Studies have shown that MNEs' balance of economic and political factors can also lead to a non-engagement response. This occurs when these factors impose limitations that prevent the firm from engaging in shaping or adapting to the situation and compel MNEs to avoid exiting the host country due to internal pressures and elevated costs of exit response (Cuervo-Cazurra et al., 2023). In this case, when facing high risks in home–host country relations, MNEs may choose to avoid direct engagement with the government, maintain a low public profile and consistently monitor the relations between the home and host countries and relevant stakeholders (De Villa et al., 2019).

Most of the papers discussing the non-engagement response in the literature targeted recent geopolitical shifts leading to uncertainty in home–host country relations (Luo, 2022; Luo & Van Assche, 2023; Tung et al., 2023; L. E. Zhang et al., 2022). Examples are to be found in papers debating decoupling strategies, where MNEs may suspend new investments in the host countries (Cui et al., 2023; Evenett & Pisani, 2023; Witt et al., 2023). In this case, the 'wait and see' approach is preferred, where time dictates the next step.

C4) Exit. MNEs' decisions on leaving a country are less studied, given the complexity of the issue. Withdrawing an investment from a host location is a decision that involves a large set of factors (Cui et al., 2023). On the one hand, MNEs perceive more value in the exit option, given the costs of coping with the effects of the home–host country relations risks (Dai et al., 2017; Kedia & Bilgili, 2015; Lander & Kuns, 2021; Witt et al., 2023). On the other hand, MNEs may exit host countries forcibly when geopolitics cause high uncertainty, regardless of the costs (Copara, 2014).

5 | MAKING SENSE OF MNE STRATEGIC DECISION-MAKING UNDER GEOPOLITICALLY INDUCED UNCERTAINTY

The studies in our sample have shown the diverse effects of geopolitically induced risk and uncertainty on MNE responses. However, these studies have not yet provided a

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way to merge the nuances of how MNEs balance economic and political rationales that determine their responses under uncertainty. This is because risk often involves a certain level of predictability of interstate relations, which allows MNEs time to learn and mitigate potential impacts on their investments. In contrast, uncertainty relates to a more dynamic political landscape, impacting how MNEs learn and value their political resources. Most studies in the literature primarily focus on risk, while the exploration of uncertainty is a relatively newer theme that has gained attention in recent years. Thus, traditional management and IB frameworks may struggle to capture the full spectrum of opportunities, participants, and challenges faced by MNEs and the different abilities of firms to exploit these. As argued by Smit and Trigeorgis (2017: 2556), 'among the most difficult cost versus value choices firm strategists must make under competition and uncertainty conditions are those that involve making a long-term commitment to a given course of action or alternatively holding off or staging such investments in the face of uncertainty'.

Considering the significant relevance of geopolitically induced uncertainty amid recent shifts in the globalization paradigm (Luo, 2024) and aiming to better interpret and integrate both economic and political views from our review, our discussion focuses on two complementary theoretical lenses in IB: real options and political capabilities. These two perspectives bridge the economic and political strategic decision-making elements we found and reported in our results. Real options theory provides insight into how MNEs navigate uncertainty and make strategic investment decisions over time, emphasizing the importance of flexibility and adaptability in response to dynamic political environments. On the other hand, political capabilities shed light on the MNE's ability to effectively manage and leverage political resources, enabling them to align their strategic responses with the interests of key stakeholders in both home and host countries.

Thus, in this section, we first apply real options theory to our findings to better understand how MNEs balance their economic rationale. Then, we complement the discussion by introducing the political capabilities view that allows us to consider how the MNE uses its political resource base to cope with and exploit opportunities in its environment (Holburn & Zelner, 2010). We show how these perspectives can be complementary in accounting for how a particular MNE or groups of MNEs with heterogeneous political resources face different investment opportunities for the use of those resources (e.g., Penrose, 2009). Finally, we outline MNE's decision-making trade-offs in shaping engagement, adaptative engagement, non-engagement and exit responses.

5.1 | Real options, political capabilities and geopolitically induced uncertainty

In IB, real options logic emphasizes the importance of flexibility in the face of uncertainty. This flexibility is important as it allows firms to navigate the varying costs of investments, competitive pressures and available opportunities identified in our review as economic rationality factors. By balancing flexibility and commitment, firms can effectively choose among options to grow, defer, stage, switch or exit (Chi et al., 2019; Trigeorgis & Reuer, 2017). For instance, in the location choices dilemma, firms can enter a new market slowly and flexibly through joint venture and/or the acquisition of small stakes rather than pursuing a full-blown acquisition strategy (Tong & Reuer, 2007). In our sample, studies have shown the preference of MNEs to acquire smaller stakes under geopolitically induced uncertainty (Vasudeva et al., 2018; Williams et al., 2017). However, a full acquisition does not mean that commitment excludes flexibility. This is because the option to invest in a wholly owned subsidiary can open space for a switch in options strategy (Belderbos et al., 2020). Thus, the firm also relies on multi-nationality or MNE network benefits to switch its operations by scaling up or down its production in different locations or maintaining flexibility by postponing an investment according to the levels of geopolitically induced uncertainty.

Even though we believe that real options help us to understand geopolitically induced uncertainty as an exogenous source of uncertainty to MNEs' responses, neither the options nor the uncertainty are exclusively external factors to the MNE. Under real options, uncertainty can be either exogenously or endogenously determined. Because geopolitics impacts interstate relations, it is reasonable to think about it as an exogenous source of uncertainty to the MNE. However, the decision-making process in geopolitical environments often considers a certain level of political influence on the MNE. Also, to exercise (or not) an option, MNEs often consider the cost of active learning about that political environment, thus coping with endogenous influences (Chi et al., 2019). That is, the firm's internal capabilities also play a role in investment decisions (Chi & Seth, 2009; Dai et al., 2017). Thus, the way in which the MNE reacts to and copes with the geopolitics of home and host countries can also be considered an endogenous source of uncertainty (Chi et al., 2019).

Therefore, the capabilities' view complements the real options approach under the proposed context. The capabilities perspective has its origins in the resource-based view as the driver of MNE's competitive advantage (Barney, 1991). Under real options theory, past investments

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are central to a firm's flexibility, hence the value of considering strategic options from a resource-based perspective (Brouthers et al., 2008). These internal abilities are developed based on internal learning structures, promoting a unique configuration of resources that can be applied to the opportunities it faces in its environment. Among the different types of firm capabilities, political capabilities are developed to deal with market failures (Hillman & Hitt, 1999; Wan, 2005; Williamson, 1975), institutional pressures (Ahammad et al., 2017; De Villa et al., 2019; Oliver, 1991) and political risks and uncertainties by leveraging political resources and by negotiating and balancing the interests of key stakeholders (Frynas et al., 2006; Lawton et al., 2013; Oliver & Holzinger, 2008).

While political capabilities help to explain a firm's leverage of political resources, bargaining power and interest balancing, as discussed in our review, this perspective alone does not entirely elucidate the complexity that lies in the impact of geopolitically induced uncertainty. We postulate that at least two main reasons exist for this. Firstly, its explanatory power is not consistent across all the analysed studies. For instance, while studies have shown that the mobilization of political resources may be valuable for the MNE in engaging with governments and key stakeholders to influence or adapt to new geopolitical scenarios, studies have found that in some cases, geopolitical shifts can devalue existing political capabilities (Cuervo-Cazurra & Li, 2021; Ren & Gao, 2023; Witte et al., 2020). This is because the uncertain new scenario between home and host countries may require a new set of MNE political capabilities (Schnyder & Sallai, 2020; White et al., 2018) since existing resources may not be as valuable in new instances of instability (Dai et al., 2017; Dieleman & Boddewyn, 2012). Thus, the value of political capabilities in geopolitically induced uncertainty may change with the uncertainty itself.

Secondly, political capabilities take time to cultivate and are dependent on organizational learning structures. This capacity is usually measured by how firms have learned to leverage political influence in different political scenarios (Albino-Pimentel et al., 2018; Dieleman & Boddewyn, 2012). The real options literature has also acknowledged the role of cognitive and organizational capabilities in determining the value of growth options and their impact on commitment and flexibility trade-offs (Chi et al., 2019; Dai et al., 2017). However, home–host country relations do not change based on episodic and isolated events but rather through progressive changes in state authority (Strange, 2015; Witte et al., 2020), triggering new power dynamics that may sometimes be challenging and ambiguous to the MNE. For instance, Copara (2014) noted that during the Bolivian expropriation of a Brazilian MNE, bilateral relations between the two countries were ambivalent, posing challenges for the MNE in learning and predicting this type of threat.

5.2 | Balancing real options and political capabilities in strategic responses

We argue that MNE responses to geopolitically induced uncertainty are better explained by accounting for the complementarities of real options and political capabilities. Under uncertain contexts, we propose that MNEs perceive and value the decision-making stochastic process according to their ability to influence or cope with uncertainty levels via their real options and political capabilities. Even though MNEs are seen as political actors (D. Li, Tong, et al., 2022; Saittakari et al., 2023), how they respond to the changes in the home and host country relations will depend on the value of their political capabilities in this new geopolitical scenario (White et al., 2018) and the strategic trade-off between flexibility and commitment in their available real options.

An investment is considered as presenting flexible options if it meets any of the following conditions. Firstly, if the investment is highly divisible, allowing for phased or staged investments, such as through joint ventures or mergers and acquisitions (Lee et al., 2009; Trigeorgis, 1996). Secondly, there is flexibility when an MNE has the option to delay or defer a commitment, preserving the ability to invest and exercise an option at a later stage. Thirdly, flexibility also refers to the MNE's option to exit or abandon investments opportunistically or to switch investments even after initial commitment (Chi et al., 2019; Trigeorgis & Reuer, 2017).

Commitment occurs, for example, when an MNE invests in a host country, and the costs of reversing that decision are high. These irreversibility costs define commitment by limiting the MNE's flexibility to change or reverse the investment (Chi et al., 2019). Similarly, when the divisibility of the investment is low, it does not allow the MNE to stage the investment, leading to inevitable commitment. Finally, commitment occurs when investment exit costs are high and the option to switch is not available (Belderbos et al., 2020). Figure 6 shows the predicted strategic responses based on the strength of MNEs' political capabilities and their investments' flexibility and commitment options.

5.2.1 | Shaping engagement response

When MNEs have *flexible* real options and possess strong political capabilities, they engage with governments and relevant stakeholders to shape home–host country

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X		POLITICAL CAPABILITIES	
		Strong political capabilities	**Weak political capabilities**
REAL OPTIONS	**Flexibility**	**Shaping engagement response** Utilizes political negotiation to stage entry or exercise options to switch, abandon, or exit when available. *Ceteris paribus - Failing in shaping geopolitically induced uncertainty* → *Adaptative engagement response or Non-engagement response*	**Adaptative engagement response** Utilizes political and/or market strategies to stage entry or exercise options to switch, abandon, or exit when available. **Non-engagement response** Utilizes "wait-and-see" strategy to exercise the option to defer investment or exit when available.
	Commitment	**Shaping engagement response** Utilizes non-market cooperative or rivalry strategies to exercise growth options. *Ceteris paribus - Failing in shaping geopolitically induced uncertainty* → *Exit response.*	**Exit response** In contrast to flexible exit options that allow opportunistic withdrawal, the exit response involves high irreversible costs.

FIGURE 6 Multinational enterprise (MNE) responses to geopolitically induced uncertainty. *Source*: The authors.

relations. Their aim is to maintain the right to expand or contract their investment via investing in stages, switching the investment's location or exiting at an opportunistic time (Cui et al., 2023; Hu et al., 2021). For instance, MNEs bargain for a better position and selection of their services in the BRI, shaping their home and host country relations (D. Li, Tong, et al., 2022) and increasing their portfolio of investments in the region. However, when MNEs are unsuccessful in the political negotiation (Abdelal, 2015; John & Lawton, 2018) or when exercising an option involves high bargaining costs (Trigeorgis, 1996; Trigeorgis & Reuer, 2017), they may adopt either an adaptive engagement response or non-engagement response. An example of adaptive engagement response was the case of the Colombian MNE, Nutresa. The MNE adapted to local regulations and restructured its ownership structure when investing in Venezuela due to its recognized limited influence over the uncertain home–host country relations (De Villa et al., 2019). In the non-engagement response, MNEs that gain access to information about the uncertainty may reassess their political capabilities and determine they are insufficient to shape or adapt to the situation. As a result, they may choose to exercise flexibility by either deferring the investment (Bussy & Zheng, 2023), opting for a wait-and-see strategy, or exiting the investment at an opportunistic time.

MNEs holding strong political capabilities under *commitment* engage with governments and relevant stakeholders to mitigate the effects of geopolitically induced uncertainty to maintain the value of their growth options (Bucheli et al., 2024). Such engagement can develop via cooperation or rivalry. Cooperation is motivated when MNEs are committed to an investment, and an inter-firm cooperation strategy is a valid option where collective political influence is more valuable than individual influence, as relationships among firms in the Eurasian gas trade illustrate (Abdelal, 2015). Rivalry arises when MNEs engage individually with governments and stakeholders because they face competition from other firms. This engagement is often aimed at reducing the risk of preemption, such as by securing intellectual property or first-mover advantages. These efforts help MNEs gain early market access, establish dominance or secure key resources, particularly in competitive or innovation-driven industries (Lambrecht & Perraudin, 2003; Tzeng, 2023). In both cases, when political engagement fails to reduce geopolitically induced uncertainty, political capabilities are not strong enough and reduce the value of an MNEs real options. In this case, the MNE may be compelled to exit (Evenett & Pisani, 2023; Witt et al., 2023).

5.2.2 | Adaptative engagement response

When the MNE possesses limited political capabilities and cannot shape home–host relations but retain flexibility, market and non-market strategies are instruments for coping with geopolitically induced uncertainty. In this context, the MNE does not have the ability to shape the political environment and chooses to conform to the environment to thrive (Chi et al., 2019; De Villa et al., 2019; Tzeng, 2023). On the one hand, MNEs apply their limited

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political capabilities to reduce the impact of uncertainty, negotiating divergent expectations between stakeholders in home and host countries and reframing their corporate purpose to adapt, thereby preserving the value of the options to stage, switch, abandon or exit (George & Schillebeeckx, 2022; Lubinski & Wadhwani, 2020). On the other hand, MNEs may use market-based strategies such as changing the focus from market exploitation to asset exploration to adapt and retain flexibility for their investments (Fjellström et al., 2023). This is the case for many tech-based MNEs that started investing in indigenous or local innovation strategies to gain legitimacy in the host country and to cope with uncertainty derived from geopolitics (L. E. Zhang et al., 2022; Zhou et al., 2024).

5.2.3 | Non-engagement response

MNEs with investments that have low divisibility and cannot be staged or are not easily reversible face a commitment situation. In such circumstances, weak political capabilities may limit their ability to manage uncertainty. Where this occurs, the option to pursue a 'wait-and-see' strategy or exit an investment has been made becomes valuable and makes a non-engagement response more likely. This could involve deferring a new investment or delaying the exit from an existing one until the uncertainty has been resolved. The option to either defer entry ex-ante or commitment ex-post where there is exogenous uncertainty and high irreversibility triggers a situation of hysteresis in real options (Chi et al., 2019). Hysteresis refers to a state where an effect continues even after the original cause has been removed (Dixit, 1992). Thus, MNEs facing uncertainty may want to sell their investment and exit a market, but doing so would still result in economic losses. An option to defer exit would be valuable in this scenario, as it allows the MNE to maintain its investments until the uncertainty has been resolved. Thus, MNEs may choose to wait for a resolution in uncertain relations between their home and host countries to create eventual beneficial spillovers, such as reduced competition from competitors exiting the host market. For example, the Danish MNE Ecco decided to stay in Russia after the war with Ukraine commenced despite unstable home–host relations (Denmark being an EU and NATO member).

5.2.4 | Exit response

When MNEs have high levels of commitment and lack flexible options, their weak political capabilities become a constraint. In this situation, geopolitically induced uncertainty may force the MNE to ignore the high costs of the exit option and divest from the host country (Copara, 2014; Cuervo-Cazurra & Li, 2021). For instance, Pernod Ricard's initial decision to continue selling in sanction-hit Russia had to be reversed. Similarly, the Chinese company Chem-China's investment in the Italian tire manufacturer Pirelli was initially welcomed during a period of stable Sino–European relations but subsequently became the focus of political tensions as relations deteriorated.

6 | LIMITATIONS AND DIRECTIONS FOR FUTURE STUDIES

Our findings are not free from limitations. Firstly, in choosing to focus on AJG journals ranked 2 and above, we run the risk of omitting important papers and perspectives in lesser-ranked and unranked journals. Secondly, the scope of this systematic review focused on the impact of geopolitics on home and host countries' relations. Because of this focus, other relevant discussions on multiparty geopolitical struggles and the spillover effects of geopolitics on third countries are not discussed. Finally, we have highlighted the crucial impact of MNEs' political capabilities in shaping the available real options for investment. However, consistent with the focus of the study, this theoretical discussion is only applied to the context of geopolitically induced uncertainty.

Nevertheless, our systematic review of the extant literature provides a basis for a better understanding of MNEs' strategic responses to home–host country relations shaped by geopolitics. Considering the elements illustrated in our integrative framework (Figure 5) and the implications of our matrix (Figure 6), we suggest how future studies can further advance knowledge on the topic. By doing so, we offer three main research avenues for future studies to target. Our suggestions are outlined in Table 3.

At the country level, home–host country relations have been discussed using different methodological approaches, highlighting the importance of a unified measure for future studies on the topic. During the review, we reported that while some studies concentrated their attention on how military disputes (Gouvea et al., 2021; Q. Li & Vashchilko, 2010), sanctions (Meyer et al., 2023) or cooperative agreements impact on businesses (Albino-Pimentel et al., 2018; Parente et al., 2019), others try to measure the quality of home and host country relations based on a wider range of interstate interactions (Caldara & Iacoviello, 2022; D. Wang et al., 2021). Not surprisingly, these different approaches generated mixed findings, fragmenting the literature around a set of conditions that explain why firms are more or less sensitive to the geopolitics impacting home and host countries relations (D. Wang et al., 2021; Witte et al., 2020; Yoon et al., 2021). Despite the

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TABLE 3 Directions for future studies.

Level of analysis	Elements of the integrative framework	Research gap	Research questions	
Country	Home–Host country relations risk and uncertainty	There is a need for a more unified approach to the debate on risk and uncertainty in home–host country relations in future studies.	**RQ1**	How can time and space be incorporated into current measures of risk and uncertainty in home–host country relations?
			RQ2	In what cases do historical factors continue to shape contemporary geopolitics impacting home–host country relations?
			RQ3	How can we better measure the mixed effects of ambivalent home–host country relations?
			RQ4	How can we better measure the mixed effects of neutral home–host country relations?
Firm	Firm-level strategic decision-making	The existing literature often overlooks the role of asset specificity in determining MNEs' sensitivity to the impact of geopolitics on home–host country relations.	**RQ5**	What assets are most/least sensitive to social pressures from stakeholders in contemporary geopolitics, impacting MNEs' investment decision-making?
			RQ6	What assets are most/least sensitive political pressures from governments in contemporary geopolitics, impacting MNEs' investment decision-making?
			RQ7	How does asset specificity shape the intertwining of economic and political rationales?
			RQ8	How does asset specificity shape the bargaining power of MNEs?
Firm	Strategic responses	There is a need for more studies targeting the decision to defer an investment or opportunistically exit a host country.	**RQ9**	How do MNEs use their political capabilities to time investment deferral in response to geopolitically induced risk/uncertainty in home and host countries relations?
			RQ10	How do MNEs use their political capabilities to time opportunistic exit in response to geopolitically induced risk/uncertainty in home and host countries relations?

Abbreviation: MNEs, multinational enterprises.
Source: The authors.

efforts of previous research to develop geopolitical indexes grounded on nations' bilateral relations (Bilgili et al., 2023; Caldara & Iacoviello, 2018; Goldstein, 1992; D. Wang et al., 2021), there is scope for a more integrated discussion in future papers when measuring risk and uncertainty at home–host country relations, as suggested in our review.

At the firm level, we outline the absence of a discussion on the role of asset specificity in determining economic and political aspects of business decisions. For example, MNEs that control economic assets linked to power and sovereignty are more exposed to government influence and interstate relations while also potentially holding greater bargaining power. This is particularly relevant in industries such as natural resources, aviation and, more recently, data-based companies (Phan, 2019; Sallai et al., 2024). In addition, asset specificity may influence how consumers perceive the MNE's impact both domestically and globally, triggering various political and social pressures (Evenett & Pisani, 2023; Witt et al., 2023). Therefore, we recommend further research in this area, as current studies on MNEs and their responses to geopolitical dynamics affecting home–host country relations do not adequately address this variation across different types of assets and industries.

Also, at the firm level, despite the importance of decisions to defer investments or exit specific locations, our analysis could not explore these strategic responses in depth due to a lack of relevant studies. Our work proposes a combined and innovative perspective that integrates political capabilities with real options theory to explain these responses. This approach further highlights the integrative potential of real options in terms of more established theoretical lenses in IB, such as transaction cost theory and the

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resource-based view, which often emphasize the control and commitment aspects of international strategy, over the benefits of retaining flexibility (Trigeorgis & Reuer, 2017). Future studies could further this integrative potential by incorporating the dynamic use of political capabilities and flexibility in uncertain environments, offering a more nuanced understanding of how firms navigate complex global landscapes.

7 | CONCLUSION

This systematic literature review investigated the impact of geopolitics on MNE strategic decision-making via home–host country relations. By applying real options and political capabilities perspectives to our review, we have enhanced the discussion on the aspects that allow, limit or restrict MNE responses. We showed how the boundaries of real options can be extended to account for how the value of real options is modified by political capabilities under changing geopolitics. Thus, it is important that MNEs cultivate and continuously reassess their political capabilities.

From a managerial perspective, international strategies are surrounded by diverse risks and uncertainties. This paper presents ideas and insights that offer guidance for effectively understanding, managing and mitigating geopolitically induced risks and uncertainties when investing abroad. From a policy perspective, it is imperative that governments are aware of the economic impact of geopolitical actions. For instance, decisions that are intended to bolster national sovereign interests, often unleashing related policies and regulations, can be indirectly harmful to countries in economic terms, diminishing the country's attractiveness for FDI. In this context, our research offers a nuanced perspective on the influence of geopolitics on international relations and on the business landscape.

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Additional supporting information can be found online in the Supporting Information section at the end of this article.

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